

**VALLEY COMMUNITY SCHOOL DISTRICT**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**June 30, 2012**

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# VALLEY COMMUNITY SCHOOL DISTRICT

## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September, 2011 Election)		
Mark Howard	President	2013
Dawn Daughton	Vice President	2011
Mick Olson	Board Member	2011
Celeste Strong	Board Member	2011
Tim Orr	Board Member	2011
(After September, 2011 Election)		
Mark Howard	President	2013
Dawn Daughton	Vice President	2015
Tim Orr	Board Member	2013
Stacy Cummings	Board Member	2015
Eileen Schlawin	Board Member	2015
School Officials		
Cathy Molumby	Superintendent	2012
Melissa Fettkether	District Treasurer And Business Manager	Indefinite
Carole Nading	District Secretary	Indefinite
Steven A. Wiedner	Attorney	Indefinite

# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

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## Independent Auditor's Report

To the Board of Education of  
Valley Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District, Elgin, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

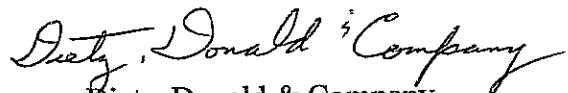
In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2012 on our consideration of Valley Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Valley Community School District's basic financial statements. The Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 46 through 48 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Elkader, Iowa

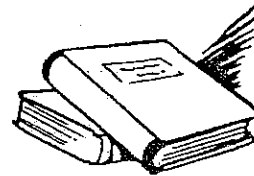
November 2, 2012

  
Dietz, Donald & Company  
Certified Public Accountants  
FEIN 42-1172392

# Valley Community School District

Cathleen A. Molumby, Superintendent

23493 Canoe Road  
Elgin, IA 52141-9634  
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Valley Community School District provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial statements is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$ 4,636,168 in fiscal year 2011 to \$ 4,735,096 in fiscal year 2012, while General Fund expenditures decreased from \$ 4,920,527 to \$ 4,833,294. The District's General Fund balance decreased from \$ 312,444 at the end of fiscal year 2011 to \$ 214,246 at the end of fiscal year 2012, a 31% decrease.
- The fiscal year 2012 General Fund revenue increase was attributable to increases in local taxes. The decrease in expenditures was due to an approximate \$ 81,000 decrease in expenditures for support services. The decrease in General Fund balance of \$ 98,198 in fiscal year 2012 was less than the \$ 284,359 decrease in fiscal year 2011, due primarily to cutting General Fund expenditures.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Valley Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Valley Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Valley Community School District acts solely as custodian for the benefit of those outside the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree's Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds.

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

**Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

**Business type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.



## Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

1. Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund is the same as its business type activities but provides more detail and additional information, such as cash flows. The District's Enterprise Fund is the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3. Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others. The District currently has one Fiduciary Fund, an Agency Fund. Agency Funds are funds through which the District administers and accounts for assets that belong to the Northeast Iowa Health Occupation Consortium.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The table below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30		June 30		June 30		June 30
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 4,945	4,608	37	29	4,982	4,637	7.4%
Capital assets	3,751	3,955	11	14	3,762	3,969	-5.2%
Total assets	8,696	8,563	48	43	8,744	8,606	1.6%
Long-term liabilities	2,037	2,109	-	-	2,037	2,109	-3.4%
Other liabilities	2,628	2,307	23	22	2,651	2,329	13.8%
Total liabilities	4,665	4,416	23	22	4,688	4,438	5.6%
Net assets:							
Invested in capital assets, net of related debt	2,711	2,723	11	14	2,722	2,737	-0.5%
Restricted	1,488	1,411	-	-	1,488	1,411	5.5%
Unrestricted	(168)	13	14	7	(154)	20	-870.0%
Total net assets	\$ 4,031	4,147	25	21	4,056	4,168	-2.7%

The District's combined net assets decreased by 2.7%, or approximately \$112,000 from the prior year. The largest portion of the District's net assets is the investment in capital assets (e.g. land, infrastructure, buildings and equipment), less the related debt.

The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$ 77,000 or 5.5%.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased approximately \$ 174,000 or 870%. This reduction in unrestricted net assets was a result of a decrease in the General Fund balance of approximately \$ 98,000.

The following table shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011

Changes in Net Assets (Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total District		Total Change	
2012	2011	2012	2011	2012	2011	2011-12	
Revenues:							
Program revenues:							
Charges for service	\$ 443	541	122	122	565	663	-14.8%
Operating grants and contributions	881	891	123	127	1,004	1,018	-1.4%
General revenues:							
Property tax	1,614	1,406	-	-	1,614	1,406	14.8%
Statewide sales, services and use tax	403	273	-	-	403	273	47.6%
Income tax surtax	101	104	-	-	101	104	-2.9%
Unrestricted state grants	1,938	1,957	-	-	1,938	1,957	-1.0%
Unrestricted investment earnings	22	22	-	-	22	22	0.0%
Other	42	112	-	-	42	112	-62.5%
Total revenues	5,444	5,306	245	249	5,689	5,555	2.4%

Program expenses:

Governmental activities:

Instruction	3,661	3,599	-	-	3,661	3,599	1.7%
Support services	1,567	1,642	-	-	1,567	1,642	-4.6%
Non-instructional programs	3	2	242	245	245	247	-0.8%
Other expenses	329	364	-	-	329	364	-9.6%
Total expenses	5,560	5,607	242	245	5,802	5,852	-0.9%
Change in net assets	\$ (116)	(301)	3	4	(113)	(297)	62.0%

In fiscal year 2012, property taxes and unrestricted state grants account for 65.2% of governmental activities revenue while charges for service and operating grants and contributions accounted for 100.0% of business type activities revenue.

The District's total revenues were approximately \$ 5.69 million of which approximately \$ 5.44 million was for governmental activities and approximately \$ 250,000 was for business type activities.

As shown above, the District as a whole experienced a 2.4% increase in revenues and a 0.9% decrease in expenses. Property taxes increased approximately \$ 208,000. Total expenses decreased approximately \$ 50,000 due to board response to a decrease in carryover spending authority.

### Governmental Activities

Revenues for governmental activities were \$ 5,443,354 and expenses were \$ 5,559,745. In a difficult budget year, the District's deficit decreased from approximately \$ 301,000 in fiscal year 2011 to approximately \$ 116,000 in fiscal year 2012.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Total and Net Cost of Governmental Activities (Expressed in Thousands)						
Total Cost of Services			Net Cost of Services			
Change			Change			
2012	2011	2011-12	2012	2011	2011-12	
Instruction	\$ 3,661	3,599	1.7%	\$ 2,589	2,392	8.2%
Support services	1,567	1,642	-4.6%	1,494	1,620	-7.8%

Non-instructional	3	2	50.0%	3	2	50.0%
Other expenses	329	364	-9.6%	150	161	-6.8%
Total	\$ 5,560	5,607	-0.8%	\$ 4,236	4,175	1.5%

For the year ended June 30, 2012:

The cost financed by users of the District's programs was \$ 443,658.

Federal and state governments subsidized certain programs with grants and contributions totaling \$ 880,580.

The net cost of governmental activities was financed with \$ 2,117,780 in property and other taxes and \$ 1,937,534 in unrestricted state grants.

### **Business Type Activities**

Revenues for business type activities during the year ended June 30, 2012 were \$ 245,291, representing a 1.5% decrease from the prior year, while expenses totaled \$ 241,626, a 1.5% decrease from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Valley Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$ 2,320,938, slightly more than last year's ending fund balances of \$ 2,307,076. The primary reason for the increase was a \$ 188,473 increase in the Capital Projects Fund.

### **Governmental Fund Highlights**

The General Fund balance decreased from \$ 312,444 to \$ 214,266 due, in part, to the negotiated salaries and benefits and existing expenditure commitments of the District.

The Capital Projects Fund balance increased \$ 188,473 from \$ 1,562,988 in fiscal year 2011 to \$ 1,751,461 in fiscal year 2012.

### **Proprietary Fund Highlights**

Revenues of the District's Nutrition Fund decreased 1.5% to \$ 245,291 while expenses decreased 1.5% to \$ 241,626. The Nutrition Fund's increase in net assets for the fiscal year 2012 was \$ 3,665 bringing its net assets to \$ 25,027.

## **BUDGETARY HIGHLIGHTS**

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget." In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its agency fund. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the GAAP basis. It is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

Over the course of the year, Valley Community School District amended its budget one time to reflect increasing instruction costs and HVAC issues. However, the original budget would have covered any of the above additional costs.

The District's revenues were \$ 272,704 more than budgeted revenues.

Total expenditures were \$ 1,007,898 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash." It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unassigned General Fund balance) of the District.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2012, the District had invested approximately \$ 3.76 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See following chart.) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year in the governmental activities was \$ 274,727.

The original cost of the District's capital assets was approximately \$ 6.53 million. Governmental activities accounted for approximately \$ 6.45 million with the remainder of approximately \$ 0.08 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. Architect fees for the safe room totaled \$ 37,445.

Capital Assets, net of Depreciation (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 33	33	-	-	33	33	0.0%
Construction in progress	37	-	-	-	37	-	-
Site improvements	127	137	-	-	127	137	-7.3%
Buildings	3,138	3,261	-	-	3,138	3,261	-3.8%
Furniture and equipment	416	524	12	14	428	538	-20.4%
Total	\$ 3,751	3,955	12	14	3,763	3,969	-5.2%

### Long-Term Debt

At June 30, 2012, the District had \$ 1,829,653 in long-term debt outstanding. This represents a decrease of approximately 8% from last year. (See following chart.)

The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$ 5.6 million.

	Outstanding Long-Term Obligations (Expressed in Thousands)		
	Total District		Total Change
	June 30,		June 30,
	2012	2011	2011-12
Revenue bonds	\$ 425	520	-18.3%
Capital loan notes	1,340	1,340	0.0%
Capital leases	65	126	-48.4%
Totals	\$ 1,830	1,986	-7.9%

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of a few existing circumstances that could significantly affect its financial health in the future:

- Taxable valuation in the District increased 1.4% from \$ 107,577,387 to \$ 109,064,606.
- Enrollment decreased 2.5% in October of 2011, which determines FY13 funding. Combined with 2.5% allowable growth, the District will receive \$ 1,564 more in state aid for 2012/13. Property tax receipts will increase \$ 330,340 with a 19.3% increase in the tax rate.
- The ending fund balance is budgeted to increase approximately \$ 235,000.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melissa Fettkether, Business Manager/Board Treasurer, or Cathleen Molumby, Superintendent.



## Basic Financial Statements

VALLEY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2012

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,677,475	18,970	2,696,445
Receivables:			
Property tax:			
Delinquent	63,597	-	63,597
Succeeding year	1,916,431	-	1,916,431
Accounts	1,658	490	2,148
Due from other funds	21,683	-	21,683
Due from other governments	264,061	-	264,061
Inventories	-	17,175	17,175
Capital assets, net of accumulated depreciation	3,751,213	11,430	3,762,643
TOTAL ASSETS	<u>8,696,118</u>	<u>48,065</u>	<u>8,744,183</u>
LIABILITIES			
Accounts payable	112,160	1,704	113,864
Salaries and benefits payable	491,473	16,970	508,443
Accrued interest payable	4,358	-	4,358
Deferred revenue:			
Succeeding year:			
Property tax	1,916,431	-	1,916,431
Income tax surtax	103,903	-	103,903
Other	-	4,364	4,364
Long-term liabilities:			
Portion due within one year:			
Revenue bonds	100,000	-	100,000
Capital leases	64,653	-	64,653
Compensated absences	50,908	-	50,908
Early retirement	19,091	-	19,091
Portion due after one year:			
Revenue bonds	325,000	-	325,000
Notes	1,340,000	-	1,340,000
Early retirement	45,899	-	45,899
Net OPEB liability	91,514	-	91,514
TOTAL LIABILITIES	<u>4,665,390</u>	<u>23,038</u>	<u>4,688,428</u>
NET ASSETS			
Invested in capital assets net of related debt	2,711,078	11,430	2,722,508
Restricted for:			
Categorical funding	225,937	-	225,937
Management levy purposes	204,444	-	204,444
Physical plant and equipment	184,604	-	184,604
Student activities	82,135	-	82,135
Debt service	790,663	-	790,663
Unrestricted	(168,133)	13,597	(154,536)
TOTAL NET ASSETS	<u>\$ 4,030,728</u>	<u>25,027</u>	<u>4,055,755</u>

See notes to financial statements

VALLEY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2012

Exhibit B

FUNCTIONS/PROGRAMS:	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Total
Governmental activities:				
Instruction:				
Regular	\$ 2,370,877	189,519	(1,689,925)	(1,689,925)
Special	970,701	39,475	(778,196)	(778,196)
Other	319,479	189,633	(121,001)	(121,001)
Support services:	3,661,057	418,627	(2,589,122)	(2,589,122)
Student	127,148	-	(127,148)	(127,148)
Instructional staff	180,213	10,005	(122,431)	(122,431)
Administration	586,010	-	(586,010)	(586,010)
Plant operation and maintenance	498,894	10,000	(488,894)	(488,894)
Transportation	174,124	5,026	(168,950)	(168,950)
Non-instructional programs	1,566,389	25,031	(1,493,433)	(1,493,433)
Other expenditures:	2,968	-	(2,968)	(2,968)
Long-term debt interest	16,536	-	(16,536)	(16,536)
AEA flowthrough	179,347	-	(179,347)	(179,347)
Depreciation (unallocated)	133,448	-	(133,448)	(133,448)
Total governmental activities	329,331	179,347	(149,984)	(149,984)
Business type activities:	5,559,745	443,658	(4,235,507)	(4,235,507)
Non-instructional programs				
Food service operations	241,626	121,748	-	3,568
Total	\$ 5,801,371	565,406	(4,235,507)	3,568
GENERAL REVENUES:				
Property taxes levied for:				
General purposes	1,543,566	-	-	1,543,566
Capital outlay	70,341	-	-	70,341
Statewide sales, services and use tax	403,267	-	-	403,267
Income tax surtax	100,606	-	-	100,606
Unrestricted state grants	1,937,534	97	-	1,937,534
Unrestricted investment earnings	21,634	-	-	21,731
Other	42,168	-	-	42,168
Total general revenues	4,119,116	97	-	4,119,213
Changes in net assets	(116,391)	3,665	-	(112,726)
Net assets beginning of year	4,147,119	21,362	-	4,168,481
Net assets end of year	\$ 4,030,728	25,027	-	4,055,755

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

	General	Capital Projects	Nonmajor	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 683,098	1,658,739	335,638	2,677,475
Receivables:				
Property tax:				
Delinquent	61,105	2,492	-	63,597
Succeeding year	1,845,796	70,635	-	1,916,431
Accounts	1,658	-	-	1,658
Due from other funds	14,020	17,044	21,683	52,747
Due from other governments	156,988	107,073	-	264,061
<b>TOTAL ASSETS</b>	<b>\$ 2,762,665</b>	<b>1,855,983</b>	<b>357,321</b>	<b>4,975,969</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 107,520	2,550	2,090	112,160
Salaries and benefits payable	491,473	-	-	491,473
Due to other funds	17,044	14,020	-	31,064
Deferred revenue:				
Succeeding year:				
Property tax	1,845,796	70,635	-	1,916,431
Income tax surtax	86,586	17,317	-	103,903
Total liabilities	2,548,419	104,522	2,090	2,655,031
Fund balances:				
Restricted for:				
Categorical funding	225,937	-	-	225,937
Debt service	-	790,663	3,662	794,325
Management levy purposes	-	-	269,434	269,434
Student activities	-	-	82,135	82,135
School infrastructure	-	790,214	-	790,214
Physical plant and equipment	-	170,584	-	184,604
Unassigned	(11,691)	-	-	(25,711)
Total fund balances	214,246	1,751,461	355,231	2,320,938
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,762,665</b>	<b>1,855,983</b>	<b>357,321</b>	<b>4,975,969</b>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2012

Total fund balances of governmental funds (page 20)	\$ 2,320,938
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,751,213
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(4,358)
Long-term liabilities, including bonds and notes payable, capital leases payable, compensated absences payable, early retirement payable and other post employment retirement benefits payable are not due and payable in the current year and, therefore, are not reported in the governmental funds	<u>(2,037,065)</u>
Net assets of governmental activities (page 18)	<u>\$ 4,030,728</u>

See notes to financial statements

VALLEY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
June 30, 2012

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 1,627,403	490,376	-	2,117,779
Tuition	160,107	-	-	160,107
Other	147,750	19,608	198,225	365,583
State sources	2,502,711	50	-	2,502,761
Federal sources	297,125	-	-	297,125
Total revenues	4,735,096	510,034	198,225	5,443,355
Expenditures:				
Current:				
Instruction:				
Regular	2,173,365	-	31,099	2,204,464
Special	963,387	-	-	963,387
Other	121,330	-	197,496	318,826
	3,258,082	-	228,595	3,486,677
Support services:				
Student	124,990	-	599	125,589
Instructional staff	171,061	-	430	171,491
Administration	564,592	-	15,860	580,452
Plant operation and maintenance	393,624	85,874	19,793	499,291
Transportation	139,619	23,701	8,372	171,692
	1,393,886	109,575	45,054	1,548,515
Non-instructional programs	1,979	-	989	2,968
Other expenditures:				
Facilities acquisition	-	37,455	-	37,455
Long-term debt:				
Principal	-	-	156,095	156,095
Interest	-	-	18,436	18,436
AEA flowthrough	179,347	-	-	179,347
	179,347	37,455	174,531	391,333
Total expenditures	4,833,294	147,030	449,169	5,429,493
Excess (deficiency) of revenues over (under) expenditures	(98,198)	363,004	(250,944)	13,862
Other financing sources (uses):				
Operating transfers in	-	-	174,531	174,531
Operating transfers out	-	(174,531)	-	(174,531)
Total other financing sources (uses)	-	(174,531)	174,531	-
Net change in fund balances	(98,198)	188,473	(76,413)	13,862
Fund balances beginning of year	312,444	1,562,988	431,644	2,307,076
Fund balances end of year	\$ 214,246	1,751,461	355,231	2,320,938

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 Year Ended June 30, 2012

Net change in fund balances - total governmental funds (page 22) \$ 13,862

Amounts reported for governmental activities in the Statement of  
 Activities are different because:

Capital outlays to purchase or build capital assets are reported  
 in governmental funds as expenditures. However, those costs  
 are not reported in the Statement of Activities and are allocated  
 over their estimated useful lives as depreciation expense in the  
 Statement of Activities. Depreciation exceeded capital outlay  
 expenditures in the current year as follows:

Expenditures for capital assets	\$ 70,969	
Depreciation expense	<u>(274,727)</u>	(203,758)

Repayment of long-term liabilities is an expenditure in the govern-  
 mental funds, but the repayment reduces long-term liabilities in the  
 Statement of Net Assets 156,095

Interest on long-term debt in the Statement of Activities differs  
 from the amount reported in the governmental funds because  
 interest is recorded as an expenditure in the funds when due.  
 In the Statement of Activities, interest expense is recognized as  
 the interest accrues, regardless of when it is due 1,900

Some expenses reported in the Statement of Activities do not  
 require the use of current financial resources and, therefore  
 are not reported as expenditures in the governmental funds as  
 follows:

Early retirement	\$ (51,618)	
Compensated absences	(563)	
Other postemployment benefits	<u>(32,309)</u>	<u>(84,490)</u>

Changes in net assets of governmental activities (page 19) \$ (116,391)

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
June 30, 2012

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 18,970
Accounts receivable	490
Inventories	17,175
Capital assets, net of accumulated depreciation	<u>11,430</u>
 TOTAL ASSETS	 <u>\$ 48,065</u>
 LIABILITIES	
Accounts payable	1,704
Salaries and benefits payable	16,970
Deferred revenue	<u>4,364</u>
 TOTAL LIABILITIES	 <u>23,038</u>
 NET ASSETS	
Invested in capital assets	11,430
Unrestricted	<u>13,597</u>
 TOTAL NET ASSETS	 <u>\$ 25,027</u>

See notes to financial statements.



VALLEY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
Year Ended June 30, 2012

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 121,748</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	99,307
Benefits	35,315
Purchased services	3,044
Supplies	101,393
Depreciation	<u>2,567</u>
Total operating expenses	<u>241,626</u>
Operating loss	<u>(119,878)</u>
Non-operating revenues:	
State sources	2,149
Federal sources	121,297
Interest income	<u>97</u>
Total non-operating revenues	<u>123,543</u>
Increase in net assets	3,665
Net assets beginning of year	<u>21,362</u>
Net assets end of year	<u>\$ 25,027</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended June 30, 2012

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 122,149
Cash paid to employees for services	(133,803)
Cash paid to suppliers for goods or services	<u>(86,274)</u>
Net cash used by operating activities	<u>(97,928)</u>
Cash flows from non-capital financing activities:	
State grants received	2,149
Federal grants received	<u>101,833</u>
Net cash provided by non-capital financing activities	<u>103,982</u>
Cash flows from investing activities:	
Interest on investments	<u>97</u>
Net increase in cash and cash equivalents	6,151
Cash and cash equivalents beginning of year	<u>12,819</u>
Cash and cash equivalents end of year	<u>\$ 18,970</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (119,878)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	19,463
Depreciation	2,567
Increase in inventories	(1,425)
Increase in accounts receivable	(124)
Increase in accounts payable	125
Increase in salaries and benefits payable	819
Increase in deferred revenue	<u>525</u>
Net cash used by operating activities	<u>\$ (97,928)</u>
Non-cash operating and related non-capital activities:	
During the year ended June 30, 2012, the District received \$ 19,463 of federal commodities	<u>\$ 19,463</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2012

	<u>Agency</u>
ASSETS	
Due from other governments	\$ 21,683
LIABILITIES	
Due to other funds	<u>21,683</u>
NET ASSETS	<u><u>\$ 0</u></u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2012

**(1) Summary of Significant Accounting Policies**

Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Clermont, Elgin and Wadena, Iowa and the predominate agricultural territory of eastern Fayette and western Clayton Counties. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Valley Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Valley Community School District had no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The District participates in two jointly governed organizations that provide services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Fayette County Assessor's Conference Board and the Clayton County Assessor's Conference Board.

## B. Basis of Presentations

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds. Combining schedules are also included for the Capital Projects Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District reports the following fiduciary fund:

The Agency Fund is used to account for assets held by the District as an agent for other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other

revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications-committed, assigned and the unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1.5% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Boards of Supervisors in April 2011.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.



Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repair that do not add to the value of the assets or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Year)</u>
Buildings	20-50
Improvements other than buildings	20
Furniture and equipment	3-12

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the

current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end. Deferred revenue in the proprietary fund financial statement consists of lunch fees collected in advance.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, lunch fees collected in advance and unspent federal grants.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

## (2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidence of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$ 281,080 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Restricted Cash - At June 30, 2011, the Bank of America held \$ 428,471 in escrow for retirement of QZAB bonds (see Note 6).

Credit Risk - The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Services.

## (3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2012 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects	\$ 14,020
Capital Projects	General	17,044
Special Revenue: Management Levy	Agency	21,683

The Capital Projects Fund is repaying the General Fund for lease payments made by the General Fund for a van and a building.

The General Fund is repaying the Capital Projects Fund for sales taxes that were initially recorded in the General Fund.

The Agency Fund is repaying the Special Revenue, Management Levy Fund for items paid by the Special Revenue, Management Levy Fund, while the Agency

Fund was awaiting payment from other school districts.

**(4) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 174,531</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2012 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 32,907	0	0	32,907
Construction in progress	0	37,455	0	37,455
Total capital assets not being Depreciated	<u>32,907</u>	<u>37,455</u>	<u>0</u>	<u>70,362</u>
Capital assets being depreciated:				
Buildings	4,960,427	0	0	4,960,427
Site improvements	199,536	0	0	199,536
Furniture and equipment	1,183,849	33,514	0	1,217,363
Total capital assets being Depreciated	<u>6,343,812</u>	<u>33,514</u>	<u>0</u>	<u>6,377,326</u>
Less accumulated depreciation for:				
Buildings	1,699,099	123,472	0	1,822,571
Site improvements	62,693	9,976	0	72,669
Furniture and equipment	659,956	141,279	0	801,235
Total accumulated depreciation	<u>2,421,748</u>	<u>274,727</u>	<u>0</u>	<u>2,696,475</u>
Total capital assets being Depreciated, net	<u>3,922,064</u>	<u>(241,213)</u>	<u>0</u>	<u>3,680,851</u>
Governmental activities Capital assets, net	<u>\$ 3,954,971</u>	<u>(203,758)</u>	<u>0</u>	<u>3,751,213</u>

Business type activities:				
Furniture and equipment	\$ 77,581	0	0	77,581
Less accumulated depreciation	<u>63,584</u>	<u>2,567</u>	<u>0</u>	<u>66,151</u>
Business type activities				
Capital assets, net	<u>\$ 13,997</u>	<u>(2,567)</u>	<u>0</u>	<u>11,430</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:	
Regular	\$ 131,189
Other	653
Support services:	
Instructional staff	7,464
Plant operation and maintenance	373
Transportation	1,600
Unallocated	<u>133,448</u>
Total depreciation expense - governmental activities	<u>\$ 274,727</u>

Business type activities:

Food service operations	<u>\$ 2,567</u>
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(6) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30 2012 are summarized below:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Revenue Bonds	\$ 520,000	0	95,000	425,000	100,000
Notes Payable	1,340,000	0	0	1,340,000	0
Capital Leases	125,748	0	61,095	64,653	64,653
Compensated Absences	50,345	14,508	13,945	50,908	50,908
Early Retirement	13,372	60,000	8,383	64,989	19,091
Net OPEB Liability	<u>59,205</u>	<u>32,309</u>	<u>0</u>	<u>91,514</u>	<u>0</u>
Total	<u>\$ 2,108,670</u>	<u>106,817</u>	<u>178,423</u>	<u>2,037,064</u>	<u>234,652</u>

### Revenue Bonds Payable

Details of the District's June 30, 2012 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year	<u>Bond Issue Sep 1, 2003</u>			<u>Bond Issued Dec 28, 2003</u>			<u>Total</u>	
	Ending Interest	Interest		Interest	Principal		Principal	Total
	June 30, Rates	Principal	Interest	Rates	Principal	Principal	Interest	Total
2013	4.20	100,000	6,615	0	0	100,000	6,615	106,615
2014	4.30	105,000	2,257	0	220,000	325,000	2,257	327,257
Total		<u>\$ 205,000</u>	<u>8,872</u>	<u>0</u>	<u>220,000</u>	<u>425,000</u>	<u>8,872</u>	<u>433,872</u>

The statewide sales, services and use tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District. However, the debt is subject to the constitutional debt limitation of the District. The resolution providing for the issuance of the September 1, 2003 statewide sales, services and use tax revenue bonds included the following:

- A] \$ 85,000 of the proceeds from the issuance of the revenue bonds shall be deposited in the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited in the Project Account.
- B] All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- C] Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- D] Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The resolution providing for the issuance of the District's December 28, 2003 statewide sales, services and use tax revenue bond included the following provision:

To provide for the payments of the bonds at maturity there is established with the Bank of America, N.A. of Des Moines, Iowa, an irrevocable trust fund for the benefit of bondholders known as the Escrow Account to be invested as per the Investment Agreement. Annually, on July 1 of each year commencing July 1, 2005, there shall be deposited from the Sinking Fund into the Escrow Fund \$ 22,545 to be invested in accordance with the terms of the Investment Agreement. Such amount has been determined to be sufficient together with invested earnings thereon to pay when due the principal of the bonds. The Escrow Fund is pledged to the payment of the bonds at maturity. At June 30, 2012 the escrow account balance was \$ 169,351.

#### Notes Payable

During the year ended June 30, 2004, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the Special Revenue, Physical Plant and Equipment Levy Fund (PPEL Fund). On July 1 of each year commencing July 1, 2005, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 34,845 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity July 1, 2013. At June 30, 2012, the escrow account balance was \$ 261,721. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 34,845, the District shall certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation.

During the year ended June 30, 2009, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the PPEL Fund. On February 12 of each year commencing February 12, 2010, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 84,400 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity February 12, 2019. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 84,400, the District will certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation. At June 30, 2012, the escrow account balance was \$ 258,992.

During the year ended June 30, 2010, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the PPEL Fund. On August 26 of each year commencing August 26, 2010, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 15,600 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity August 26, 2019. In any

year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 15,600, the District will certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation. At June 30, 2012, the escrow account balance was \$ 31,200.

Detail of the District's indebtedness under these agreements in effect at June 30, 2012 is as follows:

Year	December 28, 2003		February 12, 2009		August 26, 2009		
Ending	Capital Loan Notes		Capital Loan Notes		Capital Loan Notes		
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Total
2014	\$ 340,000	0	0	0	0	0	340,000
2019	0	0	844,000	0	0	0	844,000
2020	0	0	0	0	156,000	0	156,000
Total	\$ 340,000	0	844,000	0	156,000	0	1,340,000

#### Capital Leases

The District entered into lease-purchase agreements in connection with the acquisition of computer equipment. Detail of the District's indebtedness under these agreements in effect at June 30, 2012 is as follows:

Year Ending June 30,	Capital Lease	
	May 19, 2010 @ 5.67%	
	Principal	Interest
2013	64,653	3,763

#### Early Retirement

In December, 2011, the District approved a voluntary early retirement plan for licensed employees. The plan was offered to employees until February 1, 2012. Eligible employees had to have completed ten (10) years of contracted service in the Valley Community School District, have reached age 55 and be at least half time to qualify for early retirement. Electing employees will receive \$ 30,000 in accordance with one of the two following incentives: (a) a lump sum placed in a 403(b) account, or (b) single insurance coverage paid monthly at the health insurance premium rate up to \$ 30,000.

At June 30, 2012, the District had obligations to two participants under the plan with a total liability of \$ 59,360. Actual early retirement expenditures under this plan were \$ 640 for the fiscal year ended June 30, 2012.

At June 30, 2012, the District had an obligation to one participant under a



previous plan with a total liability of \$ 5,629. Actual early retirement expenditures under this plan were \$ 7,743 for the fiscal year ended June 30, 2012.

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: IPERS; P.O. Box 9117; Des Moines, Iowa 50603-9117

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered payroll for the year ended June 30, 2012. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$ 246,480, \$ 219,813, and \$ 193,623, respectively, equal to the required contributions for each year.

**(8) Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 72 active and 1 retired members in the plan. Participants must be age 55 or older at retirement..

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for

the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 37,689
Interest on net OPEB obligation	1,480
Adjustment to annual required contribution	(2,989)
Annual OPEB cost	36,180
Contributions made	<u>3,871</u>
Increase in net OPEB obligation	32,309
Net OPEB obligation beginning of year	<u>59,205</u>
Net OPEB obligation end of year	<u>\$ 91,514</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$ 3,871 to the medical plan. Plan members eligible for benefits contributed \$ 7,743 or 67% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 31,993	8.0%	\$ 29,443
June 20, 2011	32,932	9.6	59,205
June 30, 2012	36,180	10.7	91,514

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$ 265,932, with no actuarial accrued value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 266,932. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$ 2.739 million and the ratio of the UAAL to covered payroll was 9.7%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results

are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Other Information in the sections following the Notes to Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual and ultimate medical trend rates are 6%.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000 (2/3 Female, 1/3 Male). Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$ 1,014 per month for retirees less than age 65. The salary increase rate was assumed to be 2.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on a closed group basis over 30 years.

#### **(9) Risk Management**

Valley Community School District is exposed to various risks of loss related to torts; thefts; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area

education agency. The District's actual amount for this purpose totaled \$ 179,347 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Lease Commitments**

The District has various leases for equipment which are classified as operating leases. Rent expenses for all operating leases for the year ended June 30, 2012 totaled \$ 78,785.

Future minimum lease payments under the non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2013	\$ 57,712
2014	48,227
2015	44,550

**(12) Deficit Balance**

The General Fund had an unassigned deficit fund balance of \$ 11,691 at June 30, 2012. The unassigned deficit fund balance was a result of cuts in federal and state aid. The deficit will be eliminated in fiscal year 2013 with an increased property tax cash reserve levy.

## Other Information

VALLEY COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE OF  
REVENUES, EXPENDITURES, EXPENSES AND CHANGES IN BALANCES-  
BUDGET AND ACTUAL-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND  
OTHER INFORMATION  
Year Ended June 30, 2012

	Governmental Funds	Proprietary Funds	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues:	Actual	Actual				
Local sources	\$ 2,663,469	121,845	2,765,314	2,567,951	2,567,951	197,363
State sources	2,502,761	2,149	2,504,910	2,583,391	2,583,391	(78,481)
Federal sources	297,125	121,297	418,422	320,600	320,600	97,822
Total revenues	5,463,355	245,291	5,688,646	5,471,942	5,471,942	216,704
Expenditures/Expenses:						
Instruction	3,486,677	-	3,486,677	3,533,885	3,700,000	213,323
Support services	1,548,515	-	1,548,515	1,802,454	2,100,000	551,485
Non-instructional programs	2,968	241,626	244,594	250,600	255,000	10,406
Other expenditures	391,333	-	391,333	624,017	624,017	232,684
Total expenditures/expenses	5,429,493	241,626	5,671,119	6,210,956	6,679,017	1,007,898
Excess (deficiency) of revenues over (under) expenditures, net	13,862	3,665	17,527	(739,014)	(1,207,075)	1,224,602
Other financing sources and over (under) financing uses	-	-	-	3,500	3,500	(3,500)
Balances beginning of year	13,862	3,665	17,527	(735,514)	(1,203,575)	1,221,102
Balances end of year	2,307,076	21,362	2,328,438	2,312,574	2,312,574	15,864
	\$ 2,320,938	25,027	2,345,965	1,577,060	1,108,999	1,236,966

See accompanying independent auditor's report and notes to other information-budgetary reporting.

Valley Community School District

Notes to Other Information - Budgetary Reporting

Year Ended June 30, 2012

This budgetary comparison is presented as Other Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$ 468,061.

VALLEY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
(In Thousands)  
OTHER INFORMATION  
Year Ended June 30, 2012

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	262	262	0.0%	\$ 2,476	10.6%
2011	July 1, 2009	-	266	266	0.0	2,854	9.3
2012	July 1, 2009	-	266	266	0.0	2,739	9.7

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.



## Supplementary Information

VALLEY COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2012

	Special Revenue			
	Management Levy	Student Activity	Debt Service	Total
ASSETS				
Cash and pooled investments	\$ 247,751	84,225	3,662	335,638
Due from other funds	21,683	-	-	21,683
TOTAL ASSETS	\$ 269,434	84,225	3,662	357,321
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	2,090	-	2,090
Fund Balances:				
Restricted for:				
Management levy	269,434	-	-	269,434
purposes	-	82,135	-	82,135
Student activities	-	-	3,662	3,662
Debt service	-	-	-	-
Total fund balances	269,434	82,135	3,662	355,231
TOTAL LIABILITIES AND FUND BALANCES	\$ 269,434	84,225	3,662	357,231

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 Year Ended June 30, 2012

	Special Revenue		Debt Service	Total
	Management Levy	Student Activity		
Revenues:				
Local sources:				
Other	\$ 1,468	196,743	14	198,225
Expenditures:				
Current:				
Instruction:				
Regular	31,099	-	-	31,099
Other	-	197,496	-	197,496
Support services:				
Student	599	-	-	599
Instructional staff	430	-	-	430
Administration	15,860	-	-	15,860
Plant operation and maintenance	19,793	-	-	19,793
Transportation	8,372	-	-	8,372
Non-instructional programs	989	-	-	989
Other expenditures:				
Long-term debt:				
Principal	-	-	156,095	156,095
Interest and fiscal charges	-	-	18,436	18,436
Total expenditures	77,142	197,496	174,531	449,169
Deficiency of revenues under expenditures	(75,674)	(753)	(174,517)	(250,944)
Other financing sources:				
Operating transfers in	-	-	174,531	174,531
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(75,674)	(753)	14	(76,413)
Fund balances beginning of year	345,108	82,888	3,648	431,644
Fund balances end of year	\$ 269,434	82,135	3,662	355,231

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
CAPITAL PROJECT ACCOUNTS  
June 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 1,199,306	459,433	1,658,739
Receivables:			
Property tax:			
Delinquent	-	2,492	2,492
Succeeding year	-	70,635	70,635
Due from other funds	17,044	-	17,044
Due from other governments	89,756	17,317	107,073
TOTAL ASSETS	<u>\$ 1,306,106</u>	<u>549,877</u>	<u>1,855,983</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,550	-	2,550
Due to other funds	-	14,020	14,020
Deferred revenue:			
Succeeding year:			
Property tax	-	70,635	70,635
Income tax surtax	-	17,317	17,317
Total liabilities	<u>2,550</u>	<u>101,972</u>	<u>104,522</u>
Fund balances:			
Restricted for:			
Debt service	513,342	277,321	790,663
School infrastructure	790,214	-	790,214
Physical plant and equipment	-	170,584	170,584
Total fund balances	<u>1,303,556</u>	<u>447,905</u>	<u>1,751,461</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,306,106</u>	<u>549,877</u>	<u>1,855,983</u>

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS ACCOUNTS  
 Year Ended June 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 403,267	87,109	490,376
Other	13,343	6,265	19,608
State sources	-	50	50
Total revenues	<u>416,610</u>	<u>93,424</u>	<u>510,034</u>
Expenditures:			
Current:			
Support services:			
Plant operation and maintenance	17,445	68,429	85,874
Transportation	23,701	-	23,701
Other expenditures:			
Facilities acquisition	37,448	7	37,455
Total expenditures	<u>78,594</u>	<u>68,436</u>	<u>147,030</u>
Excess of revenues over expenditures	338,016	24,988	363,004
Other financing uses:			
Operating transfers out	<u>(106,115)</u>	<u>(68,416)</u>	<u>(174,531)</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	231,901	(43,428)	188,473
Fund balances beginning of year	<u>1,071,655</u>	<u>491,333</u>	<u>1,562,988</u>
Fund balances end of year	<u>\$ 1,303,556</u>	<u>447,905</u>	<u>1,751,461</u>

See accompanying independent auditor's report.

## Schedule 5

VALLEY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 Year Ended June 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Interfund Transfers	Balance End of Year
Drama	\$ 3,917	3,899	4,582	5,385	8,619
Junior High Drama	2,003	747	524	-	2,226
Speech	-	2,644	1,110	(1,034)	500
Vocal Music	168	4,118	4,765	1,414	935
Music Trip	70	16,517	21,280	4,693	-
Instrumental Music	4,644	4,311	2,993	(4,693)	1,269
Band Carnival	399	8,089	2,190	(2,034)	4,264
Band Uniforms	15,033	40	-	-	15,073
Music Fundraisers	6,200	14,301	10,441	-	10,060
Junior High Athletics	-	1,958	3,761	1,803	423
Football Cheerleaders	-	1,008	585	-	87
Drill Team	87	-	46	-	245
Wrestling Cheerleaders	91	200	46	-	4,020
Girls' Track Fundraiser	3,837	1,602	1,419	-	3,175
Boys' Track Fundraiser	325	-	12	-	-
Cross Country Fundraiser	3,144	31	683	-	2,390
Golf Fundraiser	2,286	4,380	4,276	-	12,304
Boys' Basketball Fundraiser	12,851	11,696	12,997	754	35
Football Fundraiser	351	4,103	4,419	-	962
Baseball Fundraiser	1,075	1,141	1,254	-	1,098
Wrestling Fundraiser	1,680	954	1,536	-	1,477
Girls' State Basketball Fundraiser	477	-	-	-	1,292
Girls' State Basketball Tournament	2,396	1,492	2,596	-	1,793
Volleyball Fundraiser	1,889	-	96	-	219
Softball Fundraiser	219	-	-	-	-
Cinder Track Fund	-	33,536	31,369	(2,167)	2,778
General Athletics	1,876	3,424	2,522	-	2,131
Student O	7,469	41,900	47,238	-	-
FFA	-	13	13	-	-
National Honor Society	-	3,180	5,589	2,409	-
Student Council	1,464	3,448	2,640	-	2,272
Junior High Council	965	6,963	8,159	231	-
Yearbook	1,462	-	1,462	-	-
Class of 2011	3,072	1,079	4,151	(6,761)	884
Class of 2012	1,870	18,288	12,513	-	1,048
Class of 2013	831	217	-	-	761
Class of 2014	467	294	-	-	260
Class of 2015	130	130	-	-	92
Class of 2016	140	227	275	-	130
Class of 2017	-	130	-	-	-
Class of 2018	-	-	-	-	-
Total	\$ 82,888	196,743	197,496	-	82,135

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 Year Ended June 30, 2012

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 675	81,021	81,696	-
Due from other governments	49,095	24,768	52,180	21,683
TOTAL ASSETS	<u>\$ 49,770</u>	<u>105,789</u>	<u>133,876</u>	<u>21,683</u>
LIABILITIES				
Accounts payable	-	84,106	84,106	-
Due to other funds	49,770	21,683	49,770	21,683
TOTAL LIABILITIES	<u>\$ 49,770</u>	<u>105,789</u>	<u>133,876</u>	<u>21,683</u>

See accompanying independent auditor's report.

## Schedule 7

VALLEY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUNDS  
 For the Last Nine Years

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Revenues:</b>									
Local sources:									
Local tax	\$ 2,117,779	1,787,495	1,909,933	1,894,099	1,906,664	1,775,571	1,778,963	1,766,838	1,688,618
Tuition	160,107	209,449	138,133	91,017	113,533	106,734	85,134	80,288	113,882
Other	365,583	403,740	373,340	349,125	296,143	263,299	329,152	296,600	257,836
Intermediate sources	-	-	-	-	-	6,460	-	-	-
State sources	2,502,761	2,562,210	2,246,320	2,640,325	2,783,929	2,624,274	2,533,585	2,387,749	2,217,454
Federal sources	297,125	348,221	566,768	280,828	209,152	197,139	225,582	419,049	1,050,836
<b>Total</b>	<b>\$ 5,443,355</b>	<b>5,306,115</b>	<b>5,234,494</b>	<b>5,255,394</b>	<b>5,309,421</b>	<b>4,973,477</b>	<b>4,952,416</b>	<b>4,950,524</b>	<b>5,328,626</b>
<b>Expenditures:</b>									
Instruction:									
Regular	\$ 2,204,464	1,991,802	2,252,887	1,843,788	1,896,250	1,804,343	1,658,069	1,617,642	1,672,441
Special	963,387	1,157,964	1,001,149	874,493	851,606	885,510	889,263	764,552	651,501
Other	318,826	296,422	346,875	278,325	274,651	264,223	306,623	368,660	421,808
Support services:									
Student	125,589	138,701	191,771	181,668	152,853	108,143	106,469	109,244	97,044
Instructional staff	171,491	240,901	238,485	163,025	145,670	143,392	146,601	110,504	145,799
Administration	580,452	611,361	559,277	522,636	491,057	512,477	537,970	520,321	483,493
Plant operation and maintenance	499,291	448,853	530,620	731,418	387,980	363,446	458,363	367,752	372,824
Transportation	171,692	206,585	341,598	226,657	216,711	208,027	156,996	212,092	233,259
Central support	-	-	-	-	-	-	-	1,813	1,574
Non-instructional programs	2,968	2,547	1,563	793	1,458	1,318	2,712	750	564
Other expenditures:									
Facilities acquisition	37,455	34,762	551,525	81,255	35,575	112,109	43,597	591,851	1,334,186
Long-term debt:									
Principal	156,095	165,999	177,519	104,696	221,671	220,000	220,000	215,000	135,000
Interest and other charges	18,436	26,127	20,136	22,371	30,333	37,954	46,767	54,828	90,423
AEA flowthrough	179,347	203,209	201,734	186,928	186,469	177,469	172,207	169,150	169,534
<b>Total</b>	<b>\$ 5,429,493</b>	<b>5,525,233</b>	<b>6,415,139</b>	<b>5,218,053</b>	<b>4,892,284</b>	<b>4,838,411</b>	<b>4,745,617</b>	<b>5,104,159</b>	<b>5,809,450</b>

See accompanying independent auditor's report.



# Dietz, Donald & Company

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education of  
Valley Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Valley Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 2, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Valley Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Valley Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Valley Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Valley Community School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow managements or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in Part I of the accompanying Schedule of Findings as item I-A-12, as a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

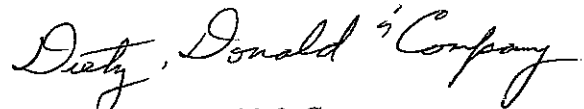
Valley Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Valley Community School District's responses and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Valley Community School District and other parties to whom Valley Community School District may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Valley Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

November 2, 2012



Dietz, Donald & Company  
Certified Public Accountants  
FEIN 42-1172392

VALLEY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2012

Part I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

I-A-12    Financial Reporting - During the audit, we identified immaterial amounts of interest income from the escrow accounts and transfers between the Property, Plant and Equipment Levy and the General Fund not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation - The District should implement procedures to ensure all interest income and approved transfers are identified and included in the District's financial statements.

Response - We will double check in the future to avoid missing these types of transactions.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE

No matters were noted.

Part II: Other Findings Related to Statutory Reporting

II-A-12    Certified Budget - Expenditures for the year ended June 30, 2012 did not exceed the amounts budgeted.

II-B-12    Questionable Expenditures - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979 were noted.

II-C-12    Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-12    Business Transactions - No business transactions between the District and District officials or employees were noted.

VALLEY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2012

II-E-12    Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

II-F-12    Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-12    Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

II-H-12    Supplementary Weighting - A variance regarding the supplementary weighting certified to the Iowa Department of Revenue was noted.

Recommendation - The District should take care that the certified supplementary weighting is accurate. We will contact the Department of Management and the Department of Education notifying them of the difference.

Response - The District received notice after October 1 of possible additional weighting for 1 student. We will try to be more careful in the future at properly counting these students.

Conclusion - Response accepted.

II-I-12    Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12 C of the Code of Iowa and the District's investment policy were noted.

II-J-12    Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

II-K-12    Categorical Funding - No instances of categorical funding being used to supplant rather than supplement other funds were noted.

II-L-12    Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

VALLEY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2012

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain elements related to the statewide sales, services, and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 1,071,655
Revenues:		
Sales tax revenues	\$ 403,267	
Other local revenues	<u>13,343</u>	<u>416,610</u>
		1,488,265
Expenditures/transfers out:		
Equipment	\$ 41,146	
Facilities acquisition	37,448	
Transfers to debt service fund	<u>106,115</u>	<u>187,709</u>
Ending balance		<u>\$ 1,303,556</u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

II-M-12 Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.

II-N-12 Financial Condition - The General Fund had an unassigned deficit fund balance of \$ 11,691 at June 30, 2012.

Recommendation - The District should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The District increased its cash reserve levy significantly for fiscal 2013 which should eliminate the unassigned deficit balance.

Conclusion - Response accepted.